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JAMES R. WILLEY, Clerk

In the Supreme Court of the United States

OCTOBER TERM, 1955

No. 556

THE MAC INVESTMENT COMPANY,
Appellant,

vs.

THE UNITED STATES OF AMERICA,
Appellee.

On Appeal from the United States District Court for the Eastern District of Michigan, Southern Division.

JURISDICTIONAL STATEMENT

Roxwell T. Gore,
1821 National Bank Building,
Detroit 26, Michigan,
Counsel for Appellant.

Of Counsel:

Dickey, Brown, Lunn, Gore & Emmons,
Detroit 26, Michigan.

TABLE OF CONTENTS.

Opinion Below 1

Jurisdiction 2

Questions Presented 2

Statutes Involved 4

Statement 4

The Questions Are Substantial 9

Question 1. Is the API Agreement illegal by reason of Section 1 of the Sherman Act? 9

Question 2. Is the testimony, as to alleged conversations with persons now deceased, by a witness whose interests are antagonistic to those of appellant admissible as evidence in a civil suit under the Sherman Act where such testimony is not admissible under local law? 14

Question 3. Does the evidence justify a finding that appellant was a party to any agreement "collateral" to or in "amplification" of the API Agreement or any agreement which was illegal by reason of Section 1 of the Sherman Act? 15

Conclusion 17

APPENDIX:

A. Opinion, Findings of Fact and Conclusions of Law of the District Court 19

B. Final Judgment of the District Court 39

C. Statutes Involved 42

TABLE OF AUTHORITIES.

Cases.

Atlantic Cleaners & Dyers v. United States, 286 U. S. 427, 76 L. ed. 1204 2

Cutter Laboratories v. Lyophile-Cryochem, 179 F. (2) 80 (C. A. 9) 9, 11, 13

Ethyl Gasoline Corp. v. United States, 309 U. S. 436, 84 L. ed. 852 2

Interstate Circuit v. United States, 306 U. S. 208, 83 L. ed. 610 2

Sugar Institute v. United States, 297 U. S. 553, 80 L. ed. 859 2

Transparent Wrap Machine Corp. v. Stokes & Smith Co., 329 U. S. 637, 91 L. ed. 563 ..... 9, 10, 11

United States v. Borden Co., 347 U. S. 514, 98 L. ed. 903 ..... 2, 3, 14

United States v. Borden, 111 Fed. Supp. 562 14

U. S. v. Line Material, 333 U. S. 287; 92 L. ed. 701 13

United States v. Oregon Medical Society, 343 U. S. 326, 96 L. ed. 978 2

United States v. United States Gypsum Co., 333 U. S. 364; 92 L. ed. 746 15

Statutes.

Expediting Act of February 11, 1903, Section 2, 32 Stat. 823, 15 U. S. C. A. 29, as amended 2

Michigan Statutes, Section 617.65, 4 Comp. Laws 1948 14

Sherman Act of July 2, 1890, 26 Stat. 209, as amended, 15 U. S. C., Sections 1 and 4:

Section 1 ..... 2, 3, 4, 13, 15, 42

Section 4 ..... 2, 4, 43

28 U. S. C. A., Section 2101(b) 2

In the Supreme Court of the United States

OCTOBER TERM, 1955.

No. _____.

THE MAC INVESTMENT COMPANY,
Appellant,

vs.

THE UNITED STATES OF AMERICA,
Appellee.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF MICHIGAN, SOUTHERN DIVISION.

JURISDICTIONAL STATEMENT.

Appellant appeals from the Final Judgment of the United States District Court for the Eastern District of Michigan, Southern Division, entered on August 15, 1955 in favor of the appellee (The United States of America) and submits this statement to show that the Supreme Court of the United States has jurisdiction of the appeal and that substantial questions are presented.

OPINION BELOW.

The opinion (consisting solely of Findings of Fact and Conclusions of Law) of the District Court for the Eastern District of Michigan, Southern Division, is reported in 106 U. S. P. Q. 129 and in 134 F. Supp. 74 (advance sheets). Copies of said Opinion and of the Final Judgment are attached hereto as Appendix A and Appendix B, respectively.

JURISDICTION.

This suit was brought under Section 4 of the Act of Congress of July 2, 1890, C. 647, 26 Stat., 209, as amended (The Sherman Act), in order to prevent and restrain alleged continuing violations by the appellant and other defendants of Section 1 of the Sherman Act. The judgment of the District Court was entered on August 15, 1955 and notice of appeal was filed in that Court on October 12, 1955. The jurisdiction of the Supreme Court to review this decision by direct appeal is conferred by Section 2 of the Expediting Act of February 11, 1903, 32 Stat. 823, 15 U. S. C. A. 29, as amended, and by 28 U. S. C. A. Section 2101(b).

The following decisions sustain the jurisdiction of the Supreme Court to review the judgment on direct appeal in this case: *United States v. Borden Co.*, 347 U. S. 514, 98 L. ed. 903; *United States v. Oregon Medical Society*, 343 U. S. 326, 96 L. ed. 978; *Ethyl Gasoline Corp. v. United States*, 309 U. S. 436, 84 L. ed. 852; *Interstate Circuit v. United States*, 306 U. S. 208, 83 L. ed. 610; *Sugar Institute v. United States*, 297 U. S. 553, 80 L. ed. 859; *Atlantic Cleaners & Dyers v. United States*, 286 U. S. 427, 76 L. ed. 1204.

QUESTIONS PRESENTED.

The following questions are presented by this Appeal:

(1) Between 1931 and 1933, DeVlieg, an inventor, independently negotiated and for substantial considerations granted exclusive, paid-up licenses to five manufacturers of noncompeting machine tools to use three unrelated inventions and improvements thereon[1] in their

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[1] The District Court construed appellant's license as covering only two of DeVlieg's inventions (we submit erroneously).

respective machines. Each invention was usable also in various other types of machines. DeVlieg was obligated by these licenses to obtain patents but was in financial difficulties and in 1933 became unable to proceed with the applications without additional funds. In May, 1933, DeVlieg and his licensees agreed to and did organize Associated Patents, Inc. ("API") to hold such inventions, subject to the outstanding licenses, to secure patents on such inventions, and to attempt to license others for uses not already licensed. On August 3, 1933, DeVlieg, his licensees and API entered into a written agreement ("API Agreement") whereby, in substance, (a) each licensee agreed that it would use such inventions only in the machines as to which it was already licensed, the extent of these uses being restated and in some instances clarified in the "Declaration of Uses" set out in said Agreement; and (b) each licensee agreed to transfer to API, at its option, any improvements on the three original inventions made by such licensee during the life of the original patents and that each licensee was entitled to receive from API a license to use any such improvements transferred to API to the same extent as it was already entitled to use the original inventions. The question here is: Is the API Agreement illegal by reason of Section 1 of the Sherman Act?

(2) Is the testimony, as to alleged conversations with persons now deceased, by a witness whose interests are antagonistic to those of appellant admissible as evidence in a civil suit under the Sherman Act where such testimony is not admissible under local law? (This question was left open in *United States v. Borden Company*, 347 U. S. 516-517, 98 L. ed., 907 and foot-notes.)

(3) Does the evidence justify a finding that appellant was a party to any agreement "collateral" to or in

"amplification" of the API Agreement or any agreement which was illegal by reason of Section 1 of the Sherman Act?

STATUTES INVOLVED.

Sections 1 and 4 of the Sherman Act of July 2, 1890, 26 Stat. 209, as amended, 15 U. S. C. A. §§ 1, 4; attached as Appendix C.

STATEMENT.

In this case the United States of America, as plaintiff, alleged that appellant and the other defendants had violated Section 1 of the Sherman Act (Act of Congress of July 2, 1890, 26 Stat. 209, as amended, 15 U. S. C. A. § 1), by being parties to a written agreement dated August 3, 1933 (referred to as the API Agreement) regarding certain patent rights, and also alleged a concurrent unwritten agreement between the same parties not to compete in the manufacture of machine tools. The District Court held that the API Agreement was invalid and that the other allegation had been sustained.

The basic issue here and the heart of the case is the validity of the API Agreement. The substantial question on its validity is whether an agreement among noncompeting exclusive licensees of an inventor violates the Sherman Act by providing that improvement inventions made by any of them during the life of the patent on the original invention will be made available to the other licensees to the same extent as they are licensed to use the original invention.

The subsidiary issues are whether there is any admissible evidence to support a finding of a concurrent unwritten agreement between defendants[2] not to compete

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[2] The word "defendants" includes the respective predecessors of certain defendants.

and whether the lower court's conclusions in that respect are without evidentiary support and clearly erroneous.

A brief historical background is essential to an understanding of the case.

For many years prior to the execution of the API Agreements, the various defendants had manufactured machine tools of different types which did not compete with each other. The type of machines that each built was a result of historical growth, "know-how," facilities, and other similar factors. The appellant's predecessors (referred to as "Lucas") manufactured table-type horizontal boring machines. The Carlton Machine Tool Company manufactured radial drills; Brown & Sharpe Manufacturing Company, small-size milling machines, grinding machines and a limited number of other types of machine tools; The Lodge & Shipley Machine Tool Company, lathes; and the DeVlieg interests, large-size milling machines.

At the opening of the trial the Government expressly admitted "* * * these companies manufacture different types of machines, they are therefore noncompetitive." (Transcript of testimony, p. 9)

Although, as admitted by the Government, the defendants were noncompetitive, each of the defendants has always had strong and vigorous competition from other manufacturers of machine tools of the type it sold. For example, Lucas sold only approximately 15% of table-type horizontal boring machines. (Tr. 697)

Prior to 1931 defendant Charles B. DeVlieg had invented three unrelated mechanisms and certain improvements thereon, which were usable in machine tools and in other types of machinery. In 1931 DeVlieg granted Lucas the "exclusive right" to use these inventions[3] "in its full

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[3] The District Court construed appellant's license as covering only two of DeVlieg's inventions (erroneously, we submit).

line" of machines. Subsequent to that date, and prior to the organization of API, DeVlieg independently negotiated with each of the other defendants and for a substantial consideration granted each of them an exclusive license to use his said inventions and any improvements thereon in their respective lines of machine tools. Under the terms of the licenses DeVlieg was obligated to secure patents on his inventions.

Each of the various licenses was exclusive as to the type or types of machine tools which each of the respective licensees was then producing. Each license authorized the licensee to use the invention in its products, but did not, in all instances, identify with precise language the machine tools covered by the license. Thus, each licensee had an *exclusive* license from DeVlieg on the same inventions for *its* line of machines, but there was uncertainty in the language describing the permitted use.

In 1933, DeVlieg faced serious financial problems. This jeopardized the rights of his licensees to the exclusive use of his inventions in their respective products. The appellant and the other licensees became concerned that the patent work, which DeVlieg was obligated to finance, would not be done. The licenses were paid up except those to The Lodge & Shipley Machine Tool Company and The Carlton Machine Tool Company which were then on a royalty basis. On May 18, 1933, these two licensees entered into an agreement with DeVlieg whereby they paid DeVlieg $15,000.00 in lieu of royalties and agreed to organize, with DeVlieg and his other licensees, a corporation to which DeVlieg would assign the licensed inventions, including improvements thereon. The corporation, Associated Patents, Incorporated (API) was organized on May 24, 1933, and on June 13, 1933 DeVlieg assigned his remaining interest in the inventions to API. The assignment

to API was subject to the outstanding licenses to appellant and the other licensees.

On August 3, 1933, API, DeVlieg and his licensees entered into the API Agreement. This Agreement in substance provided that all improvements upon the three original DeVlieg inventions made by any of the parties during the life of any patents on said original inventions would be available to API, DeVlieg and his licensees to the same extent as the original inventions. In order to eliminate the uncertainty in the language of DeVlieg's original licenses the Agreement re-stated and clarified such language in a paragraph entitled "Declaration of Uses" further defining and specifying the extent of the use originally granted by DeVlieg. It further stated that each of the DeVlieg licensees would use the inventions and improvements only to the extent they had been licensed so to do.

None of these inventions has ever been commercially important either in the machine tool industry or elsewhere. None of these inventions has ever been used by any of the licensees, other than experimentally, except that Brown & Sharpe Manufacturing Company and DeVlieg each made a limited use thereof. Beginning with the issuance of the first patent extensive efforts were made by API to license others, but without success.

On July 17, 1947, Lucas and API brought Civil Action No. 6813 in the United States District Court for the Eastern District of Michigan against DeVlieg and his associated companies. This suit charged that a machine which DeVlieg, through defendant DeVlieg Machine Company, commenced manufacturing and selling about the end of 1941 infringed certain patents owned by Lucas. The suit further charged that the DeVlieg machine also infringed DeVlieg patents which Lucas had the exclusive license to

use in machines of this type and to which API held legal title. It further charged that DeVlieg had obtained a patent for an improvement upon one of his original inventions which he was obligated to offer, but had not offered, to assign to API. An assignment of this patent to API was sought as well as an injunction and damages for infringement of the Lucas and API patents and patent rights.

Civil Action No. 6813 was tried before Honorable Arthur F. Lederle, Chief District Judge, the trial ending December 29, 1949. On June 13, 1950, almost six months after the conclusion of the trial, DeVlieg filed a motion for leave to amend his answer to include as a defense an allegation that the API Agreement was illegal and unenforceable as being in violation of the antitrust laws of the United States. Leave was granted to so amend the answer by the District Judge on July 11, 1950. Before any decision was rendered in Civil Action No. 6813, the present action was filed by the United States on June 22, 1951, in the United States District Court for the Eastern District of Michigan. An order was then entered by the District Judge in Civil Action No. 6813, staying proceedings therein pending termination of this action.

Following trial of the instant action, both parties submitted proposed findings of fact and conclusions of law. The District Court adopted verbatim the findings and conclusions proposed by the United States with a few minor and unimportant exceptions. The District Court obviously copied verbatim from the proposals of the United States in its conclusion that the API Agreement violated the Sherman Act and its finding that there was a concurrent unwritten agreement among the defendants not to compete. The District Court cited no case supporting, and filed no opinion rationalizing, its conclusions.

THE QUESTIONS ARE SUBSTANTIAL.

Question 1. Is the API Agreement illegal by reason of Section 1 of the Sherman Act?

The issue raised by the first question is substantial, important and recurring because the API Agreement represents a typical arrangement for the exchange of patent rights necessary to cooperative research and development by noncompetitors with related problems and because the decision in this case is apparently in conflict with the decision of this Court in *Transparent Wrap Machine Corp. v. Stokes & Smith Co.*, 329 U. S. 637, 91 L. ed. 563, and with the decision of the Court of Appeals for the Ninth Circuit in *Cutter Laboratories v. Lyophile-Cryochem*, 179 F. (2) 80 (C. A. 9), approving a comparable interchange of patent rights.

The validity of the API Agreement depends on the right of noncompeting exclusive licensees of an inventor to agree that improvement inventions made by any of them during the life of the patent on the licensed invention will be made available to the other licensees to the same extent as they are licensed to use the original invention. In other respects the API Agreement is nothing more than a clarifying re-statement of patent rights including those created by the outstanding licenses previously granted by DeVlieg to the respective parties to the API Agreement. The government appears to charge that the provision of the API Agreement in which the parties agreed to use the inventions only in certain machines violated the Sherman Act. Such a charge has no substantial basis because their existing individual licenses from DeVlieg permitted the parties to use the inventions only in those same certain machines and the United States patent laws prohibited any greater use. The so-called "Declara-

tion of Use", then, is merely the legal equivalent of a promise not to infringe the patent rights of others, and, as such, is clearly valid.

The provision in the API Agreement for the assignment to API of improvements made by any of the parties on any of the three original DeVlieg inventions and for the licensing of the parties to use such improvements in the same types of machines in which they were licensed to use the original inventions is a valid provision because it is only an exercise of rights granted under the patent laws of the United States and does not conflict with any other principle of law or public policy. The provision in question is nothing more than a trading of patent rights, i.e., the acquisition of rights under a patent for a consideration which, instead of cash or other property, consists of rights under another patent. As pointed out by this Court in the *Transwrap* case, *supra*: "One who uses one patent to acquire another is not extending his patent monopoly to articles governed by the general law and as respects which neither monopolies nor restraints of trade are sanctioned. He is indeed using one legalized monopoly to acquire another legalized monopoly." (p. 644.) In the same case this Court pointed out that Congress has made all patents assignable and has placed no limitation on the consideration for a patent assignment. "That exclusive right [to make, use and vend the invention], being the essence of the patent privilege, is, for purposes of the assignment statute, of the same dignity as any other property which may be used to purchase patents." (Ibid., p. 643.)

The principle of the *Transwrap* case logically applies to the present facts where noncompetitive licensees under three inventions agree in effect to cross-license patented improvements which any of them might make on such

inventions. As in that case, there is, in this case, nothing more than the exchange of part of one patent monopoly for a part of another patent monopoly. The rule of the *Transwrap* case was in fact applied in a comparable situation by the Court of Appeals for the Ninth Circuit in the *Cutter Laboratories* case, *supra*, and the decision below is also in conflict with that decision.

In the *Cutter Laboratories* case two manufacturers of noncompetitive products each owned patents useful in the freeze-dried drug field. They formed a new corporation and agreed to transfer to it their present and future patents in that field. The new corporation then licensed each of the two manufacturers to use the patents in their respective products. This was held to be a valid agreement, even though it required the transfer of all patents in the freeze-dried drug field with apparently no time limitation. The API Agreement, which, by contrast, required the transfer only of those improvements on the three original inventions made within a limited period and not the transfer of all patents useful in the machine tool field or even in any segment of that field, should be valid *a fortiori*.

It was noted in the *Cutter Laboratories* case that patent pools and agreements for cross-licensing or assignment of future patents were not illegal *per se*. The court said, at page 92:

> "Patent pools and cross-licensing agreements, when formed in a legitimate manner for legitimate purposes, are not illegal in themselves. Standard Oil Co. v. United States, 283 U. S. 163, 51 S. Ct. 421, 75 L. Ed. 926. Nor is an agreement to assign patents on future inventions within a specified field inherently illegal. Transparent Wrap Machine Corp. v. Stokes

> & Smith Co., 329 U. S. 637, 67 S. Ct. 610, 91 L. Ed. 563. It is only where the agreements are used to effect a restraint of trade or a monopoly that they violate the law, as where they are used to fix prices, United States v. Line Material Co., 333 U. S. 287, 68 S. Ct. 550, 92 L. Ed. 701, or to suppress competition from unpatented articles, Morton Salt Co. v. Suppiger Co., 314 U. S. 488, 62 S. Ct. 402, 86 L. Ed. 363, or to monopolize an entire industry by pooling the dominating patents and allocating fields of manufacture among companies which would otherwise be in competition. Hartford-Empire Co. v. United States, 323 U. S. 386, 65 S. Ct. 373, 89 L. Ed. 322."

Since the API Agreement does not provide for, nor does it make possible, such restraints as price-fixing, control over unpatented articles, or allocation of markets geographically, by types of machines or any other way, and since the provision for assignment of future improvement patents is an exercise of rights within the grant of the patent monopoly, the API Agreement is not an illegal restraint of trade.

The basic issue in this case, i.e., the validity of an agreement among noncompeting licensees of an inventor that improvement inventions made by any of them on the licensed inventions will be made available to the other licensees to the same extent as they are licensed to use the original invention, is of importance to industry generally because such agreements are being used with increasing frequency in joint research and development programs. This Court has already taken note of and sanctioned these cooperative efforts towards improvements in the arts and sciences:

> "The development of patents by separate corporations or by cooperating units of an industry through an

> organized research group is a well known phenomenon. However far advanced over the lone inventor's experimentation this method of seeking improvement in the practices of the arts and sciences may be, there can be no objection, on the score of illegality, either to the mere size of such a group or the thoroughness of its research." *U. S. v. Line Material*, 333 U. S. 287, 310; 92 L. ed. 701, 719.

In many instances, particularly in the case of small companies, cooperative effort is necessary in order to secure the required facilities, talent and know-how required today for a successful research and development program. Technological progress resulting from these joint efforts is clearly beneficial to the public. The joint research and development programs by small companies have the advantage not only of bringing about technological advances but of maintaining such companies in competitive positions in their respective industries.

It is submitted that the District Court erred in ruling that the API Agreement is illegal under Section 1 of the Sherman Act. The provision for assignment of future improvement patents is valid because it is consistent with the patent laws of the United States and does not effect any restraint of trade in violation of the Sherman Act. As noted above, decisions of this Court would indicate that the provision is a valid exercise of patent rights and the decision of the District Court appears to conflict with that of the Court of Appeals for the 9th Circuit in the *Cutter Laboratories* case. We believe that this question is substantial and that it is of public importance.

Question 2. Is the testimony, as to alleged conversations with persons now deceased, by a witness whose interests are antagonistic to those of appellant admissible as evidence in a civil suit under the Sherman Act where such testimony is not admissible under local law?

The issue raised by the second question is also substantial, important and recurring. Many defendants in Government anti-trust cases are confronted with oral testimony, by parties whose interests are adverse, as to alleged statements against interest claimed to have been made by their officers or agents who are dead and hence contradiction is impossible. Many states, including Michigan, have statutes excluding such testimony.

Such testimony by an adverse party in a Sherman Act case was excluded under the so-called "Dead Man" statute of Illinois in *United States v. Borden*, 111 Fed. Supp. 562. The Government challenged this ruling on appeal to the Supreme Court in *United States v. Borden Company*, 347 U. S. 514, 98 L. ed. 903, but the case was disposed of upon other grounds. (See 347 U. S. 516-517, 98 L. ed. 907 and footnotes.)

During the trial of the present case, DeVlieg, the *only* witness called by the Government, was permitted, over appellant's objection under Michigan Statutes, Section 617.65, 4 Comp. Laws 1948, commonly referred to as the Michigan "Dead Man" statute, to testify concerning alleged conversations with officers of defendant companies, all of whom had been dead for a number of years prior to the institution of the present suit. Such testimony by an opposite party is not admissible under Michigan law over the objection of the protected party; and an opposite party has been defined by the Michigan Supreme

Court as a person whose interests are, as a matter of fact, antagonistic to the interests of the protected party. Certainly DeVlieg's interests are antagonistic to those of the appellant, for DeVlieg, while nominally a defendant herein, is vitally interested in winning this case for the Government, since the judgment can then be used as the vehicle to enable him to set up an anti-trust defense in the litigation between appellant and DeVlieg. Since DeVlieg's testimony is the basis of the finding[4] of a concurrent unwritten agreement between defendants not to compete, the question is important and should be reviewed.

Since appellate review lies only in this Court, failure to entertain this appeal would mean that the District Court is the final arbiter both as to the facts established by the evidence and as to the evidence which is admissible to establish the facts.

Question 3. Does the evidence justify a finding that appellant was a party to any agreement "collateral" to or in "amplification" of the API Agreement or any agreement which was illegal by reason of Section 1 of the Sherman Act?

The crucial findings and conclusions of the District Court in this case are clearly erroneous under familiar standards. *United States v. United States Gypsum Co.*, 333 U. S. 364, 394-396; 92 L. ed. 746, 765-766.

Findings 18 to 23, inclusive, deal with the heart of the case. These Findings contain the Court's conclusions as to the legal effect of the API Agreement and the extent to

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[4] Appellant contends that the lower Court's finding of a concurrent agreement was not justified by the evidence and was clearly erroneous even if the challenged evidence is held to be admissible and is considered. (See discussion of Question 3, *infra*.)

which it modified or altered the legal situation theretofore created by the outstanding licenses from DeVlieg. These conclusions concerning the legal effect of such documents raise questions of law.

Finding 24 as to the existence of a concurrent general unwritten agreement between defendants not to compete appears to be based on DeVlieg's testimony which, as pointed out *supra*, is inadmissible. Assuming arguendo that DeVlieg's testimony is admissible, a reading thereof demonstrates that, even given full credence, it does not support the Court's conclusion drawn therefrom and that such conclusion is clearly erroneous. Subparagraphs (a) to (d) of Finding 24 set forth (erroneously, we contend) various incidents characterized by the District Court as "subsidiary agreements" to "implement" a "general unwritten agreement not to compete." Hence these incidents are without significance in the disposition of this case if, as appellant contends, the finding of the so-called unwritten agreement is clearly erroneous. Moreover, these incidents in the main consist of written documents and the findings as to the legal effect of such documents are clearly erroneous.

The only real issues in this case are issues of law. The government produced only one witness, DeVlieg, and the case does not turn on his testimony even though it is held admissible and given full credence.

Moreover, it is clear that all of the Court's findings are closely allied to and intertwined with its conclusion that the API Agreement was invalid. The judgment states that the other alleged agreements were "amplifications of or collateral to the API Agreement * * *." (Final Judgment, Paragraph V, Appendix B.) Hence, if the API Agreement is valid, as we submit it clearly is, the basic struc-

ture of the Court's decision is destroyed. The decision should be reversed and remanded for further consideration in the light of the true legal principles which are controlling.

CONCLUSION.

This case involves substantial legal issues important to both the Appellant and the public. The Court below resolved these issues without citation of any authority and contrary to the principles set forth in the cases cited *supra*. We therefore appeal to this Court to correct the errors committed below.

Respectfully submitted,

ROCKWELL T. GUST,
1881 National Bank Building,
Detroit 26, Michigan,
Counsel for Appellant.

Of Counsel:

BUTZEL, EAMAN, LONG, GUST & KENNEDY,
JAMES D. RITCHIE,
1881 National Bank Building,
Detroit 26, Michigan.

A. H. BRENAN,
BRUCE GRISWOLD,
1717 Union Commerce Building,
Cleveland 14, Ohio.

JAMES T. HOFFMANN,
870 Union Commerce Building,
Cleveland 14, Ohio.

APPENDIX A.

CIVIL ACTION No. 10664.

UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF MICHIGAN,
SOUTHERN DIVISION.

UNITED STATES OF AMERICA,
Plaintiff,

vs.

ASSOCIATED PATENTS, INC., BROWN & SHARPE MANUFACTURING COMPANY, THE CARLTON MACHINE TOOL COMPANY, DeVLIEG ENGINEERING COMPANY, DeVLIEG MACHINE COMPANY, CHARLES B. DeVLIEG, THE LODGE & SHIPLEY MACHINE TOOL COMPANY, and THE MAC INVESTMENT COMPANY,
Defendants.

OPINION.

Complaint was filed and action was instituted against the defendants under Section 4 of the Act of Congress of July 2, 1890, c. 647, 26 Stat. 209, as amended, entitled "An Act To Protect Trade and Commerce Against Unlawful Restraints and Monopolies," commonly known as the Sherman Act, in order to prevent and restrain alleged continuing violations by the defendants of Section 1 of the Sherman Act, it being the further claim of the plaintiff that beginning in or about the year 1933, and continuing thereafter up to and including the date of the filing of this complaint, the defendants have contracted, combined and conspired to restrain unreasonably the aforesaid interstate trade and commerce in machine tools, in violation of Section 1 as aforesaid; further alleging that the defendants are continuing, and threaten to, and will continue the said

offenses unless the relief prayed for in the complaint be granted. It is further alleged that the terms of the contracts, combination and conspiracy have been:

(a) That defendants organize API and pool in API their existing and future patent rights relating to machine tools;

(b) That defendants allocate among themselves the manufacture and sale of machine tools according to specified types thereof, so that each defendant has the exclusive right to manufacture and sell specified types of machine tools, and so that each defendant refrain from the manufacture and sale of types of machine tools reserved for exclusive manufacture and sale by any other defendant;

(c) That API refrain from licensing under the pooled patents others than defendants to manufacture and sell any types of machine tools reserved for exclusive manufacture and sale by any of the defendants.

The "machine tools" referred to include power-driven machines, not portable by hand, which are used to cut or shape metal, and includes machine tools of the following types: lathes, shaving machines, drilling machines, boring machines, milling machines, broaching machines, grinding machines, gear producing machines, and screw machines.

It is further alleged that the contracts, combination and conspiracy, and certain of the acts, agreements, arrangements and understandings of the defendants have had the effect, as intended by the defendants, of eliminating, suppressing and restraining competition among the defendants in the manufacture and sale of machine tools in interstate commerce; of eliminating, suppressing and restraining competition among the defendants in obtaining, utilizing and licensing patent rights relating to machine tools; of eliminating, suppressing and restraining com-

petition by others in the manufacture and sale of machine tools, and of denying a purchaser of machine tools access to a free and competitive market therefor.

From the evidence submitted at a rather extended trial, the Court makes the following

FINDINGS OF FACT.

1. Associated Patents, Inc., hereinafter referred to as "API," is a corporation organized under the laws of the State of Ohio, with its principal place of business at Cincinnati, Ohio. API has functioned solely as a patent holding and licensing company. It has never engaged in manufacturing or other activities. The capital stock of API has at all times been evenly divided between the following five companies or their predecessors in interest: Brown & Sharpe Manufacturing Company, The Carlton Machine Tool Company, DeVlieg Engineering Company, The Lodge & Shipley Company, and The Mac Investment Company.

2. Brown & Sharpe Manufacturing Company, hereinafter referred to as "Brown & Sharpe," is a corporation organized and existing under the laws of the State of Rhode Island, with its principal place of business at Providence, Rhode Island. It is engaged in the manufacture and sale of milling machines, grinding machines, automatic screw machines, and other types of machine tools.

3. The Carlton Machine Tool Company, hereinafter referred to as "Carlton," is a corporation organized and existing under the laws of the State of Ohio, with its principal place of business at Cincinnati, Ohio. It is engaged in the manufacture and sale of radial drilling machines.

4. The Lodge & Shipley Company, formerly known as The Lodge & Shipley Machine Tool Company, hereinafter referred to as "Lodge & Shipley," is a corporation organized and existing under the laws of the State of Ohio, with its principal place of business at Cincinnati, Ohio. It is engaged in the manufacture and sale of lathes.

5. The Lucas Machine Tool Company, hereinafter referred to as "Lucas," was a corporation organized and existing under the laws of the State of Ohio, with its principal place of business at Cleveland, Ohio. It was engaged in the manufacture and sale of horizontal boring, drilling and milling machines. In 1945 it merged with McDonald, Coolidge & Company, a corporation organized and existing under the laws of the State of Ohio, with its principal place of business in Cleveland, Ohio. In 1948, the physical assets of Lucas were sold and the name was changed to The Mac Investment Company. The Mac Investment Company retains any interest of Lucas not sold in 1948.

6. The DeVlieg Machine Company is a corporation organized and existing under the laws of the State of Michigan, with its principal place of business at Ferndale, Michigan. It is engaged in the manufacture and sale of a horizontal boring, drilling and milling machine called the "Jigmil."

7. The DeVlieg Engineering Company is a corporation organized and existing under the laws of the State of Michigan, with its principal place of business at Ferndale, Michigan. It is the successor to a former co-partnership of the same name, and is a party to the API agreements, but is inactive and is not engaged in manufacturing or selling any product.

8. Charles B. DeVlieg, a resident of Farmington, Michigan, and owner, with other members of his family, of the controlling interest in the DeVlieg Engineering Company and the DeVlieg Machine Company, is an inventor in the machine tool field. Prior to 1933 he had developed three major inventions of general application in the machine tool field known as a backlash eliminator, an automatic power transmission mechanism, and an automatic positioning device. These inventions shall hereinafter be referred to collectively as the "subject matter inventions" and their patents as the "subject matter patents."

9. The machine tools manufactured by defendants as aforesaid are sold and shipped in interstate commerce to states other than the states of origin or where they are manufactured.

10. An essential characteristic of the manufacture of machine tools by defendants and other members of the machine tool industry is the development of improvements, securing patents thereon, the issuing of licenses and the obtaining of licenses on patents owned by other machine tool manufacturers.

11. On September 3, 1931, Charles B. DeVlieg granted Lucas an exclusive license on two of his inventions, the backlash eliminator and the power transmission mechanism, for use on horizontal boring, drilling and milling machines. No provision was made in this agreement for the licensing of future improvement patents.

12. On October 7, 1932, Charles B. DeVlieg granted Carlton an exclusive license on all three of the subject matter inventions, for the manufacture, use and sale of drilling machines. The license included future improvements on the subject matter inventions.

13. On October 7, 1932, Charles B. DeVlieg granted Lodge & Shipley an exclusive license on the subject matter inventions for the manufacture, use and sale of lathes. The license included future improvements on the inventions. By a subsequent agreement dated May 18, 1933, DeVlieg granted Lodge & Shipley an exclusive license on the same inventions for use on shaving machines.

14. On November 29, 1932, Charles B. DeVlieg granted Brown & Sharpe a non-exclusive license on the subject matter inventions for the manufacture, use and sale of machine tools, without specification of particular types of machines. This agreement provided that future improvements on the subject matter inventions developed by either party were to be licensed to the other party. DeVlieg agreed not to license competitors of Brown & Sharpe on these inventions without that company's approval.

15. By an agreement dated May 18, 1933, between Charles B. DeVlieg, party of the first part, and Lodge & Shipley and Carlton, parties of the second part, DeVlieg agreed to assign the subject matter inventions to a corporation to be known as Associated Patents, Inc.

16. By a series of assignments dated June 13, 1933, Charles B. DeVlieg transferred all rights in the subject matter inventions and the patent applications thereon to API.

17. A meeting was held in Cincinnati, Ohio, shortly prior to August 3, 1933, to discuss terms and conditions under which the subject matter patents would be administered by API. Present at this meeting, held in the law offices of Dolle, O'Donnell & Cash, attorneys for Lodge & Shipley, were Messrs. Jack Carlton, President of Carlton, J. Wallace Carrel, President of Lodge & Shipley, Henry

M. Lucas, President of Lucas, Paul DeWolf, Vice President of Brown & Sharpe, and Charles B. DeVlieg, as well as Messrs. William L. Dolle and George Fee, members of the aforementioned law firm. The meeting lasted approximately three days. Discussions at the meeting centered on the practice of the subject matter inventions in accordance with a so-called "Declaration of Uses" restricting each member of API to the use of the subject matter inventions and future improvements thereon within a given field, non-competitive with any other member. Understandings reached at the meeting in this respect were reduced to a formal agreement dated August 3, 1933, referred to hereinafter as the "API agreement" (Gov. Ex. 12). The agreement was drafted by attorney George Fee, attorney of record for Lodge & Shipley in this case.

18. The principal provisions of the API agreement are as follows:

(a) The parties to the agreement were the five machine tool manufacturing companies, API, the newly organized patent-holding corporation and Charles B. DeVlieg, individually as the inventor.

(b) The agreement was applicable to the three original DeVlieg inventions (the backlash eliminator, the power transmission mechanism, and the automatic positioning device) and all improvements thereon developed by the members. The term "improvements" was specifically defined in the agreement "to include all improvements or betterments of the subject matter * * * together with all inventions which supplement or extend the subject matter or improvements or the uses of either or both. * * *"

(c) The agreement was to continue as long as there were outstanding any unexpired patents on the subject matter or improvements thereon.

(d) The members of API were obligated to make prompt disclosure to API of any and all improvements on the subject matter developed by them or their employees and to assign such improvements to API. The expenses incurred in connection with the obtaining of patents on improvements so assigned were to be borne by API.

(e) The "Declaration of Uses" provision of the agreement specified the particular fields within which the subject matter patents and improvements thereon were to be exclusively licensed to the respective companies. Each field of use consisted of several types of machine tools and with one exception these fields of use were mutually exclusive and non-competitive.

(f) Each of the parties to the API agreement was entitled to receive an exclusive license within the field defined in its Declaration of Use on any improvement assigned to API.

(g) Members of API were required to pay a royalty of ½ of 1 per cent of the net selling price of all machine tools incorporating an improvement not perfected by such party. Regardless of the number of improvements incorporated in any particular machine tool the aggregate royalty was not to exceed 1 per cent. A member was not required to pay a royalty on the use of any improvement that it had assigned to the pool.

(h) API was to undertake the defense of any action, suit or claim for infringement, brought against any of the member companies as a result of the manufacture, use, or sale of any machine tools incorporating the subject matter patents or any improvement thereon, and any damages payable by reason of such actions were to be borne by API.

(i) API was to have the sole and exclusive right to grant licenses and sub-licenses on the subject matter patents and improvements thereon, provided, how-

ever, that no licenses were to be granted within the exclusive fields of use reserved to the various members without the prior consent of the member within whose field of use such prospective license was to be granted.

(j) The scope of the Declaration of Use assigned to each party could be extended only by API, but no such extension could be granted to any member which would conflict with the Declaration of Use of any other party except with the consent of that party.

(k) Licenses upon improvements were to be non-assignable and non-transferable except where the party being granted the license had assigned such improvement to API.

(l) In the event of insolvency of any member the licenses on improvements not developed by such party were to be terminated forthwith.

(m) In the event that an API member desired to dispose of its stock in the corporation API was to have 30 days within which to exercise an option to purchase such stock at its book value before it could be disposed of to an outside party.

19. The rights and obligations of the parties as provided in the API agreement created an entirely new and different arrangement for the use of the subject matter patents and future improvement patents than had existed under the original licenses from DeVlieg to the other parties separately. The more important differences between the new arrangement and that which had previously existed are as follows:

(a) Lucas became entitled to use the automatic positioning device which had not been included in its original license from DeVlieg. The original license had been limited to horizontal boring, drilling and milling machines whereas the field of use assigned to

Lucas by the API agreement also included jig-boring machines.

(b) Brown & Sharpe's license from DeVlieg had not been limited to particular types of machine tools but applied to all "machine tools of their own manufacture." In the API agreement Brown & Sharpe was assigned a field of use limited to several specific types of machine tools. Also, the license from DeVlieg was to terminate, as to each of the three subject matter inventions, on the expiration date of the first patent to be issued on that invention whereas the API agreement was to continue in force as long as there were unexpired patents on either the subject matter inventions or improvements.

(c) Prior to the API agreement DeVlieg was free to utilize the subject matter inventions and his own improvements thereon in the manufacture, use and sale of any type of machine tool except as limited by the exclusive licenses to Lucas, Carlton and Lodge & Shipley. Under the API agreement DeVlieg was confined to a field consisting of milling machines and broaching machines.

(d) The original DeVlieg licenses, except for that to Lucas, included future improvement patents developed by DeVlieg but there were no agreements between any of the licensees pertaining to improvement patents. Under the API agreement each party became entitled to an exclusive license within its field of use on any improvement developed by any other member.

(e) Prior to the API agreement Carlton, Lodge & Shipley and Brown & Sharpe had been entitled to licenses on all improvement patents developed by DeVlieg without being obligated to pay royalties or the expenses connected with patent applications. Under the API agreement these companies were not only obligated to pay royalties for the use of improvement

patents developed by DeVlieg but were required to assume a proportionate share of the expenses incurred by API in obtaining patents on such improvements.

(f) The API agreement imposed limitations on the transferability of the licenses to be granted to the parties whereas the original licenses from DeVlieg had not been subject to such limitations.

20. The purposes of API as evidenced by the provisions of the API agreement were:

(a) To suppress competition between the parties by confining their use of the API inventions to non-competitive fields of activity.

(b) To restrict outside parties in competing with API members by denying them access to the subject matter patents and the improvements thereon subsequently developed by API members.

21. The purpose of the parties in imposing restrictions upon the granting of licenses on improvements was not to enhance the financial returns from royalties but to insulate members from competition between themselves and from outsiders. Each member by agreeing to restrictions upon the licensing of improvements designed to protect other members from competition was, in turn, assured that licenses upon improvements developed by other members would be similarly restricted.

22. API was in substance and effect merely an agency or instrumentality utilized by the members to effect a network of exclusive cross-licenses among themselves and to control the terms and conditions of any licenses that might be granted to outsiders. The actions and policies of API were controlled entirely by the member companies who directed its activities to serve their individual purposes. Thus, API had no independent control of its own affairs.

23. From August 1933 until July 13, 1953, there was a concert of action in pursuance of a common plan among the defendants herein by which restrictions were imposed upon the manner in which licenses would be issued upon improvements developed by the API members. On July 13, 1953, one of the Courts of Common Pleas for Hamilton County, Ohio, ordered a limited dissolution of the affairs of API and, subsequent to that date, certain of the shareholders of API have filed with the Ohio court having jurisdiction of the dissolution proceedings disclaimers of all claims to assets of API, and of all rights under the API agreement.

24. Concurrent with the execution of the API agreement the members arrived at a general unwritten agreement not to compete in the manufacture of machine tools irrespective of whether or not API patents were utilized. To implement this general agreement not to compete, a number of subsidiary agreements were made from time to time when a new machine designed by one party threatened to conflict or compete with a machine being manufactured by another party, to-wit:

(a) In August 1933, Carlton was designing a new drilling machine capable of both horizontal and vertical drilling. This machine threatened to conflict with the horizontal boring, drilling and milling machines being manufactured by Lucas and encroach upon the field reserved to Lucas in its declaration of use in the API agreement. The Carlton machine did not embody inventions covered by API patents. Henry M. Lucas, President of the Lucas Machine Tool Company, visited Carlton's plant and examined the blueprints of Carlton's new drilling machine. Carlton requested drawings of the Lucas machine involved in the conflict. It was subsequently agreed between Lucas and Carlton that there would be no conflict in

their respective manufacture of the machines involved.

(b) In March 1934 Charles B. DeVlieg visited the Brown & Sharpe plant in Providence, Rhode Island and because of Mr. DeVlieg's status as a member of API he was shown confidential designs being developed by Brown & Sharpe for a new milling machine called their No. 12. Some time prior to this date Brown & Sharpe and DeVlieg reached an agreement designed to prevent competition between them in the manufacture and sale of milling machines whereby DeVlieg would manufacture only the larger sizes and Brown & Sharpe would manufacture only the smaller ones. This agreement was not limited to milling machines incorporating API patents. On learning that DeVlieg was designing a milling machine of a size which would compete with the Brown & Sharpe No. 12 milling machine, Brown & Sharpe protested to DeVlieg that this was a violation of their agreement. DeVlieg replied that he recognized his obligation not to produce a competing machine and would not do so unless an arrangement could be decided upon at some future date. After Brown & Sharpe's protest, and out of deference to the understanding, DeVlieg did not go ahead with his plans for manufacturing a machine of that size although such a machine had already been designed.

(c) In 1938 DeVlieg was designing a knee type milling machine which incorporated a sliding spindle. Despite the fact that DeVlieg believed that the machine he proposed to produce was entirely within the Declaration of Use allocated to him by the API agreement he nevertheless felt that the understanding among API members required him to obtain from Lucas a letter of approval before going ahead with the production of such a machine. Lucas was the API member whose machine tools would be most nearly competitive with the machine that DeVlieg proposed building.

(d) In 1941 DeVlieg was requested by the War Production Board to concentrate his activities on the production of horizontal boring, drilling and milling machines. After making preliminary drawings and designs for the production of such a machine (which later came to be known as the Jigmil), DeVlieg went to Cleveland for the purpose of consulting with Lucas. DeVlieg sought clearance from Lucas which would permit him to commence manufacturing activities within the field that was exclusively reserved to Lucas by the Declaration of Uses provision of the API agreement. On this occasion he exhibited to Lucas the preliminary drawings for the machine. Subsequently, in July of 1941 when Lucas visited DeVlieg's plant in Ferndale he inspected the work that was being done on the design and development of the Jigmil and asked for and received a set of drawings which he took back to Cleveland. Thereafter in December of 1941 while visiting DeVlieg's plant, Lucas saw the first machine in operation. During this visit the conversation turned to the possibility of competition between the Jigmil as produced by DeVlieg and the horizontal boring, drilling and milling machines manufactured by Lucas. Lucas was at this time producing a combined horizontal boring, drilling and milling machine in which the axis of the spindle was parallel to the bed. The Jigmil as designed by DeVlieg was differentiated from Lucas' product in that the axis of the spindle was at right angles to the bed. On this occasion DeVlieg and Lucas arrived at an understanding the essence of which was that each agreed not to produce the type of combined horizontal boring, drilling and milling machine being manufactured by the other.

25. In 1945 The Lucas Machine Tool Company notified DeVlieg that, by incorporating devices covered by API patents into the Jigmil, he was violating Lucas' rights under the API agreement which granted to Lucas the

exclusive right to use these inventions in horizontal boring, drilling and milling machines. It also charged that DeVlieg was infringing two other Lucas-owned patents which had not been assigned to API. Lucas also claimed that DeVlieg's Jigmil patent was an improvement within the meaning of the API agreement, and that, accordingly, DeVlieg was obligated to assign it to API.

26. In April, 1947, at a directors' meeting held in Atlantic City, New Jersey, the members of API voted to support The Lucas Machine Tool Company with respect to the claims it was asserting against DeVlieg. A motion was adopted at this meeting which provided that, if necessary, API would bring suit against DeVlieg to enforce these claims, or join with Lucas in such a suit. During the succeeding months various members of API made efforts to bring DeVlieg and Lucas together in order that an out-of-court settlement of the controversy might be reached. Throughout these efforts to effect a settlement both API and Lucas made it an indispensable condition that DeVlieg agree to assign the Jigmil patent to API. The insistence upon this condition caused the attempts to reach a settlement to be unsuccessful.

27. On July 16, 1947, API and The Lucas Machine Tool Company filed suit against DeVlieg in the District Court of the United States, Eastern District of Michigan, Southern Division, (Civil Action No. 6813). In the second cause of action alleged in this suit, The Mac Investment Company, as successor to Lucas, and API are relying upon the API agreement in the following two respects:

(a) They are asserting a claim for damages based upon an alleged invasion by DeVlieg of the field of exclusive use assigned to The Lucas Machine Tool Company by the Declaration of Use provision of the API agreement.

(b) They are asking the Court for an order of specific performance requiring DeVlieg to assign the Jigmil patent (2,391,398) to API on the ground that it is an improvement within the meaning of that term as used in the API agreement, and that by virtue of the provision of Article II he is obligated to assign it to API.

This suit is still pending.

28. The business done by Brown & Sharpe in the milling machine field has been a substantial proportion of the total dollar volume of business done in this field of manufacture. In recent years Brown & Sharpe's total sales have amounted to approximately 53 million dollars annually, and of this total approximately 3½ million has been in the field of milling machines.

29. The business done by Lodge & Shipley in the field of engine lathes has been a substantial proportion of the total dollar volume of business done in this field of manufacture. In recent years Lodge & Shipley's total sales have amounted to approximately 20 to 21 million dollars.

30. The business done by Carlton in the radial drilling field has been a substantial proportion of the total dollar volume of business done in this field. In recent years Carlton's total sales have amounted to approximately 6 to 7 million dollars.

31. After its formation, API became the owner of seven improvements developed by the members and assigned to it in accordance with the requirements of the API agreement.

32. The whole course of defendants' conduct with relation to the three subject matter patents indicates that they recognized the inventions as highly important, fundamental and valuable contributions to the machine tool art.

CONCLUSIONS OF LAW.

1. The Court has jurisdiction of the subject matter hereof and of each of the defendants, and the complaint states a cause of action against the defendants under the provisions of the Act of July 2, 1890, entitled "An Act to Protect Trade and Commerce Against Unlawful Restraints and Monopolies," as amended, commonly known as the Sherman Act.

2. The API agreement of August 3, 1933, created an arrangement for the exclusive cross-licensing of the subject matter patents and future improvement patents therein through the pooling of these patents in API. The combined effect of the provisions of the API agreement was to impose the following unreasonable restraints:

(a) The parties were restricted in their manufacture of machine tools by being unable to obtain licenses permitting them to incorporate features covered by the subject matter patents or improvements thereon on machine tools not included in their respective fields of use.

(b) Outside parties were restricted in their manufacture of machine tools by being foreclosed from obtaining licenses on the subject matter patents or improvements thereon for any of the types of machine tools included within the fields of use exclusively reserved to API members.

(c) Each of the parties was restricted in the licensing of improvement patents it developed by the requirements that all improvement patents be assigned to API.

(d) Invention and technological development have been discouraged by the limitations imposed on the members' rights to use and license improvement patents developed by them.

3. By their continued adherence to the API agreement defendants have engaged in a continuing conspiracy to unreasonably restrain interstate commerce in the manufacture of machine tools in violation of Section 1 of the Sherman Act.

4. The agreement of 1933 between Brown & Sharpe and DeVlieg concerning the size of milling machines each would manufacture; the agreement of 1933 between Carlton and Lucas with respect to eliminating competition between the types of machine tools each would manufacture; the clearance sought by DeVlieg from Lucas in 1938 to build a bed type milling machine with sliding spindle; and the approval requested by DeVlieg from Lucas in 1941 in order to enable him to go ahead with the building of a Jigmil were integral parts of an over-all conspiracy between the API members by which the manufacturing activities of the member corporations have been confined to the fields of specialization delineated in the Declaration of Uses provision of the API agreement. Since August of 1933, the defendants have been engaged in a combination and conspiracy in unreasonable restraint of interstate trade and commerce in machine tools in violation of Section 1 of the Sherman Act, the purpose and effect of which has been to confine the manufacture of machine tools by each of them to fields of specialization that were not competitive with each other.

5. Plaintiff herein is entitled to relief by way of an appropriate decree of this Court declaring the API agreement to be illegal and void.

6. In view of the litigation pending in the Federal District Court at Detroit, Michigan, between Mac Investment Company and Charles B. DeVlieg, DeVlieg Engineering Company and DeVlieg Machine Company, it is

apparent that the DeVlieg group has not been acting in concert with any other members of the combination since the inception of said litigation. And, in view of the disclaimers it is also apparent that certain of the shareholders of API have abandoned the combination brought into existence and continued by the creation of the API agreement. The conduct on the part of the co-conspirators, as evidenced by said litigation and by said disclaimers, lends support to a conclusion that the co-conspirators have withdrawn from the conspiracy. If such conclusion proves to be valid, the conspiracy would have terminated and the granting of an injunction to effectuate such termination would not be necessary. In view of the lack of proof at this time of any threat of future violations, the granting of an injunction against future violations is not appropriate. However, in the light of our observations in the following paragraph, we are unable to decide conclusively as of this writing that the conspiracy has, in fact, terminated.

The order of the Court of Common Pleas of Hamilton County, Ohio, dissolving API and appointing a permanent receiver, contains the following:

> "It is further ordered that the Receiver shall not commence any litigation, or take any steps in connection with existing litigation to which Associated Patents, Incorporated, is presently a party, or in connection with the assets which are the subject of such litigation, without permission of this court."

This provision establishes that API has not been completely dissolved, and that it is awaiting the outcome of litigation that has as its subject matter an asset that could be of considerable value to API, and, in aligning itself as a party plaintiff with Mac Investment Company in this litigation, API has kept in existence at least a part of the

complained-of combination. Because of this situation, the Court will retain jurisdiction of this matter until the final disposition of Civil Action 6813 pending in the District Court for the Eastern District of Michigan, and also until there is a final disposition of the dissolution proceedings presently pending in the Court of Common Pleas, Hamilton County, Ohio, at which time, upon re-application by plaintiff, this Court will determine the request for injunctive relief.

An order in conformity with this opinion may be presented.

Dated at Detroit, Michigan, this 20th day of June, A. D. 1955.

THOMAS P. THORNTON,
United States District Judge.

APPENDIX B.

FINAL JUDGMENT.

Plaintiff, United States of America, filed its complaint herein on June 22, 1951, and defendants answered denying the substantive allegations thereof. The cause came on for trial February 16, 1954, and was completed March 4, 1954. The Court filed its Opinion, in the form of Findings of Fact and Conclusions of Law, on June 20, 1955, adjudging the defendants to have violated Section 1 of the Sherman Act.

NOW, THEREFORE, IT IS HEREBY ORDERED, ADJUDGED AND DECREED as follows:

I.

Defendants have combined and conspired to unreasonably restrain trade and commerce in the manufacture of machine tools in violation of Section 1 of the Sherman Act.

II.

As used in this Final Judgment:

(A) "API" means defendant Associated Patents, Inc.;

(B) "Brown & Sharpe" means defendant Brown & Sharpe Manufacturing Company;

(C) "Carlton" means defendant The Carlton Machine Tool Company;

(D) "Lucas" means defendant The Lucas Machine Tool Company, now known as The Mac Investment Company;

(E) "DeVlieg" means defendant Charles B. DeVlieg individually and/or either or both of the corporate defendants bearing his name, DeVlieg Engineering Company and DeVlieg Machine Company;

(F) "Machine tools" means power-driven machines, not portable by hand, which are used to cut or shape metal, including, but not limited to, machine tools of the following types: lathes and shaping, drilling, boring, milling, broaching, grinding, gear producing and screw machines.

III.

The provisions of this Final Judgment applicable to any defendant shall apply to such defendant, its subsidiaries, successors, assigns, and each of its officers, directors, agents and employees, and to all other persons in active concert or participation with it who receive actual notice of this Final Judgment by personal service or otherwise.

IV.

The Agreement of August 3, 1933, by and between API, Brown & Sharpe, Carlton, Lucas, DeVlieg Engineering Company, Charles B. DeVlieg, and Lodge & Shipley, is unlawful under Section 1 of the Sherman Act and is hereby declared illegal, null and void.

V.

The following, being amplifications of or collateral to the API Agreement of August 3, 1933, are unlawful under Section 1 of the Sherman Act and are hereby declared illegal, null and void:

(A) Agreement of 1933 between Carlton and Lucas with respect to the elimination of competition between them in the types of machine tools each would manufacture;

(B) Agreement of 1933 between Brown & Sharpe and DeVlieg concerning the size of milling machines each would manufacture;

(C) The clearance sought by DeVlieg from Lucas in 1938 to build a bed type milling machine with a sliding spindle;

(D) The approval requested by DeVlieg from Lucas in 1941 to proceed with the building of a jigmil or otherwise.

VI.

Jurisdiction is particularly reserved, because of uncertainties in the present status of API pending litigation in Civil Action No. 6813 in the District Court for the Eastern District of Michigan, and dissolution proceedings in the Court of Common Pleas, Hamilton County, Ohio, to determine at a later date upon application of plaintiff such other relief, injunctive or otherwise, which may be necessary and appropriate in the premises to terminate and dissipate the effects of the conspiracy herein adjudged illegal under Section 1 of the Sherman Act.

In addition to the foregoing jurisdiction is retained for the purpose of enabling any of the parties to this action to apply to this court at any time for such further orders or directions as may be necessary or appropriate for the construction or carrying out of this Final Judgment, for the modification of any of the provisions thereof, for the enforcement of compliance therewith and for punishment of violations thereof.

VII.

Judgment is entered against the defendants for all taxable costs to be taxed in this proceeding.

THOMAS P. THORNTON,

United States District Judge.

Date: August 15, 1955.

APPENDIX C.

STATUTES INVOLVED.

The Sherman Act of July 2, 1890, 26 Stat. 209, as amended, 15 U. S. C., Sections 1 and 4:

1. *Trusts, etc. in restraint of trade illegal; exception of resale price agreements; penalty*

Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal: *Provided,* That nothing contained in sections 1-7 of this title shall render illegal, contracts or agreements prescribing minimum prices for the resale of a commodity which bears, or the label or container of which bears, the trade mark, brand, or name of the producer or distributor of such commodity and which is in free and open competition with commodities of the same general class produced or distributed by others, when contracts or agreements of that description are lawful as applied to intrastate transactions, under any statute, law, or public policy now or hereafter in effect in any State, Territory, or the District of Columbia in which such resale is to be made, or to which the commodity is to be transported for such resale, and the making of such contracts or agreements shall not be an unfair method of competition under section 45 of this title: *Provided further,* That the preceding proviso shall not make lawful any contract or agreement, providing for the establishment or maintenance of minimum resale prices on any commodity herein involved, between manufacturers, or between producers, or between wholesalers, or between brokers, or between factors, or between retailers, or between persons, firms, or corporations in competition with each other. Every person who shall make any contract or engage in any combination or conspiracy declared by sections 1-7 of this title to be illegal shall be deemed

guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding $5,000, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court. July 2, 1890, c. 647, Sec. 1, 26 Stat. 209; Aug. 17, 1937, c. 690, Title VIII, 50 Stat. 693."

"4. *Jurisdiction of courts; duty of district attorneys; procedure*

The several district courts of the United States are invested with jurisdiction to prevent and restrain violations of sections 1-7 of this title; and it shall be the duty of the several district attorneys of the United States, in their respective districts, under the direction of the Attorney General, to institute proceedings in equity to prevent and restrain such violations. Such proceedings may be by way of petition setting forth the case and praying that such violation shall be enjoined or otherwise prohibited. When the parties complained of shall have been duly notified of such petition the court shall proceed, as soon as may be, to the hearing and determination of the case; and pending such petition and before final decree, the court may at any time make such temporary restraining order or prohibition as shall be deemed just in the premises. July 2, 1890, c. 647, Sec. 4, 26 Stat. 209; Mar. 3, 1911, c. 231, Sec. 291, 36 Stat. 1167."

INDEX

	Page
Statement	1
Argument	5
Conclusion	11

CITATIONS

Cases:

Addyston Pipe & Steel Co. v. *United States*, 175 U.S. 211	7
Binderup v. *Pathe Exchange, Inc.*, 263 U.S. 291	8
Cutter Laboratories v. *Lyophile-Cryochem Corp.*, 179 F. 2d 80	9–10
Eastern States Retail Lumber Dealers' Ass'n v. *United States*, 234 U.S. 600	8
Timken Roller Bearing Co. v. *United States*, 341 U.S. 593	6
Transparent-Wrap Machine Corp. v. *Stokes & Smith Co.*, 329 U.S. 637	9
United States v. *American Tobacco Co.*, 221 U.S. 106	6
United States v. *Borden Co.*, 347 U.S. 514	10
United States v. *General Dyestuff Corporation*, 57 F. Supp. 642	7
United States v. *Griffith*, 334 U.S. 100	7
United States v. *Hartford-Empire Co.*, 46 F. Supp. 541, affirmed 323 U.S. 386	7
United States v. *National Lead Co.*, 63 F. Supp. 513, affirmed, 332 U.S. 319	7, 8

Statute:

Sherman Act, Sec. 1, 26 Stat. 209, 15 U.S.C. 1	1

In the Supreme Court of the United States

OCTOBER TERM, 1955

No. 558

THE MAC INVESTMENT COMPANY, APPELLANT

v.

UNITED STATES OF AMERICA

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF MICHIGAN

MOTION TO AFFIRM

Pursuant to Rule 16, Paragraph 1(c), of the Revised Rules of this Court, appellee United States of America moves that the judgment of the District Court be affirmed.

STATEMENT

This is a direct appeal from the final judgment entered by the District Court on August 15, 1955, which adjudged that the appellant and others had combined and conspired to restrain interstate commerce in the manufacture of machine tools, in violation of Section 1 of the Sherman Act, 15 U.S.C. 1.

The complaint, charging such violation, was filed in June 1951. After a trial which ran from February 16, 1954, to March 4, 1954, the District Court on June 20, 1955, filed its opinion in the form of findings of fact and conclusions of law. The facts found by the District Court, as supplemented by certain facts set forth in the Jurisdictional Statement, can be briefly summarized.

Prior to 1931, Charles B. DeVlieg, one of the defendants in the case, had developed three major inventions of general application in the manufacture of machine tools, known as a backlash eliminator, an automatic positioning device, and an automatic transmission mechanism. In that year, DeVlieg granted an exclusive license under two of the inventions (the backlash eliminator and the automatic power transmission mechanism) to defendant The Lucas Machine Tool Company ("Lucas"), appellant's predecessor, for use in the manufacture of horizontal boring, drilling and milling machines. In 1932, he granted an exclusive license under all three inventions and improvements thereon to defendant The Carlton Machine Tool Company ("Carlton") for use in the manufacture of drilling machines. That same year he granted an exclusive license under all three inventions and improvements thereon to defendant The Lodge & Shipley Machine Tool Company ("Lodge & Shipley") for use in the manufacture of lathes. He also that same year granted a non-exclusive license under all three inventions and improvements thereon to defendant Brown & Sharpe Man-

ufacturing Company ("Brown & Sharpe") to be incorporated in "machine tools of their [Brown & Sharpe's] own manufacture." (J. S.[1] 23-24.)

In 1933, the licensees, who had an interest in the DeVlieg inventions then being processed through the Patent Office, became concerned over DeVlieg's financial outlook. Two of the licensees, Carlton and Lodge & Shipley, agreed to make a cash payment to DeVlieg in lieu of royalty payments under their licenses, and agreed with him and the two other licensees to organize Associated Patents, Incorporated ("API"), to which DeVlieg was to assign all his rights in his three inventions. The four licensees and DeVlieg each received and thereafter owned 20% of API's capital Stock. (J.S. 6, 21, 24.)

In August 1933, a meeting was held in Cincinnati, Ohio, to discuss the terms and conditions under which the new company would administer the inventions. Understandings reached at the meeting were reduced to a formal agreement dated August 3, 1933, referred to hereinafter as the "API agreement" (J.S. 24-25). The principal provisions of this agreement were (J.S. 25-26):

> (a) The agreement applied to the three original DeVlieg inventions and all improvements thereon developed by the members, and was to continue as long as there were outstanding any unexpired patents on these inventions or improvements thereon.

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[1] Appellant's Jurisdictional Statement, including its Appendix, will be referred to as "J.S."

(b) The API members were obligated to disclose promptly to API all such improvements developed by them or their employees and to assign such improvements to API.

(c) The "Declaration of Uses" provision of the agreement specified the particular fields within which the involved patents and improvements thereon were to be exclusively licensed to the respective companies. Each field of use consisted of several types of machine tools and, with one exception, these fields of use were mutually exclusive and non-competitive.

(d) Each API member was entitled to receive an exclusive license, within the field defined in its Declaration of Use, on any improvement assigned to API.

(e) API was to have the exclusive right to grant licenses and sub-licenses on the assigned patents and improvements thereon, but no license was to be granted within any member's exclusive field of use without the prior consent of such member.

(f) The scope of the Declaration of Use assigned to each party could be extended only by API, but it could not grant any extension which would conflict with the Declaration of Use of any other party except with the consent of that party.

The purposes of API were to suppress competition between the parties by confining their use

of the API inventions to non-competitive fields of activity, and to restrict the competition of outside parties by denying them access to the assigned patents and improvements thereon subsequently developed by API members (J.S. 29).

The court found that, concurrent with the execution of the API agreement, the members arrived at a general unwritten agreement not to compete in the manufacture of machine tools irrespective of whether or not API's patents were utilized (J.S. 30). It also found that, to implement the general agreement not to compete, a number of subsidiary agreements were made from time to time when a new machine designed by one party threatened to conflict or compete with a machine being manufactured by another party under patents not covered by the API agreement (*ibid.*). These subsidiary agreements are described in detail in the court's findings (J.S. 30-32).

ARGUMENT

Appellant's contention (J.S. 9-10) that the API agreement is a mere restatement of patent rights created by the outstanding individual licenses previously granted by DeVlieg ignores certain basic facts. The API agreement embraced not only the inventions covered by the individual licenses, but improvements thereon later developed by any of the parties. It took from each of the parties any independent right to license his own inventions, and placed this power in the hands of API under a restriction barring grant of a license for a field

of use reserved to any other party without that party's consent. The term of the agreement also exceeded that of the individual licenses since it was to continue, not merely for the life of patents on DeVlieg's three original inventions, but for the life of any subsequent improvement thereon. The agreement thus created substantial new rights and obligations, and united the parties in a scheme to restrict both competition among themselves and competition of others.

The API agreement provided that all inventions which the parties subsequently developed which related to the API patents should be pooled and that the rights thereby pooled might be utilized by each party only in the particular field of manufacture allotted to him, such field being non-competitive with the fields allotted to the other parties. The parties thus agreed that, as far as API patents and all inventions constituting improvements thereon were concerned, each party would stay within his allotted field of manufacture. This, therefore, was an agreement not to compete, achieved through a division of exclusive fields of manufacture. Agreements of this kind, whether achieved by allocating exclusive territorial markets or exclusive fields of manufacture, and whether implemented by rights claimed under patents or not, have uniformly been held to violate the Sherman Act. *Timken Roller Bearing Co.* v. *United States,* 341 U.S. 593, 596-599; *United States* v. *American Tobacco Co.,* 221 U.S. 106, 182; *Addyston Pipe & Steel Co.* v. *United States,* 175 U.S.

211, 241; *United States* v. *National Lead Co.*, 63 F. Supp. 513 (S.D.N.Y.), affirmed, 332 U.S. 319; *United States* v. *Hartford-Empire Co.*, 46 F. Supp. 541 (N.D. Ohio), affirmed, 323 U.S. 386.

It is immaterial that the parties to the API agreement were not in actual competition with each other at the time the agreement was signed. The antitrust laws are as much violated by the prevention of competition as by its destruction. *United States v. Griffith*, 334 U.S. 100, 107. In *United States* v. *General Dyestuff Corporation, et al.*, 57 F. Supp. 642, 648 (S.D.N.Y.), the court aptly said: "Neither the letter of the law nor its purpose 'distinguishes between strangling a commerce which has been born and preventing the birth of a commerce which does not exist.' "

While the parties to the API agreement manufactured different types of machines, it does not follow that they were not potential competitors. They were engaged in closely related and, to some extent, overlapping fields of manufacture. The facts show that expansion of one member's field of activity into that of another was neither impractical nor improbable. At various times after the making of the API agreement certain defendants contemplated, or actually began, construction of machines which would compete with those being manufactured by other parties to the agreement (J.S. 30-32). DeVlieg's expansion into the horizontal boring field in 1941, foreign to him before that date, is a prime example of this (J. S. 32). Likewise, the basis of the civil action brought in

1947 by Lucas and API against DeVlieg is that a machine manufactured by DeVlieg infringed patents owned by Lucas and threatened to compete with a machine which Lucas was entitled to manufacture exclusively under the API agreement (J.S. 7-8).

The API agreement was designed to prevent not only competition among the parties thereto, but also competition of outsiders. It provided that no license should be granted within the exclusive fields of use reserved to the various members without the prior consent of the member within whose field the prospective license was to be granted (*supra*, p. 4). Agreement upon this veto provision constituted concerted action not to deal with a competitor of any member of the combining group, since, in the absence of this provision, each member would have been free to license his improvement inventions to competitors of other members. Concerted refusal to deal, with the effect and purpose of preventing competition, has long been recognized as violative of the Sherman Act. *Binderup* v. *Pathe Exchange, Inc.*, 263 U.S. 291; *Eastern States Retail Lumber Dealers' Ass'n* v. *United States*, 234 U.S. 600. This principle applies where members of a patent pool agree to restrict the licensing of outsiders. In *United States* v. *National Lead Co.*, 63 F. Supp. 513, 524, *supra*, the court said that where there is a refusal to license which is the product of agreement or conspiracy on the part of owners of competing patents, "the law is offended to the same extent as the law is violated when several combine

and agree not to do business with a particular customer or class of customers."

Appellant contends (J.S. 9) that the decision in the present case is "apparently in conflict" with the decision of this Court in *Transparent-Wrap Machine Corp.* v. *Stokes & Smith Co.*, 329 U.S. 637. We submit that there clearly is no element of conflict. The *Transparent-Wrap* case involved the validity of a license agreement between a single licensor and a single licensee, which obligated the licensee to assign improvement patents to the licensor. The instant case, on the other hand, involves the validity of agreement among patentees to restrict or eliminate competition. The five parties to the API agreement operated for a period of some 20 years under an agreement providing that future improvement patents or inventions developed by any of them might be used only on the basis of a division of manufacturing fields, and providing, as to such patents or inventions, that each party might veto use thereof by its competitors.

Nor is there, as appellant has suggested (J.S. 9, 11-12), real or apparent conflict between the decision below and that in *Cutter Laboratories* v. *Lyophile-Cryochem Corp.*, 179 F. 2d 80 (C.A. 9). In *Cutter Laboratories* the F. J. Stokes Machine Co., a manufacturer of freeze-drying apparatus, and Sharp & Dohme, a manufacturer of freeze-dried drugs and medical products, formed a corporation to which they assigned their patents in the freeze-dried drugs field and agreed to assign to it their future patents in this field. The new company then

granted Stokes a license to make and sell patented machinery and granted Sharp & Dohme a license to make and sell patented medical products. The court found that there was "no evidence of restrictive practices" on the part of the patent holding company in the granting of licenses and that "[a]ny would-be licensee appears to have been able to procure just the licenses he wished." 179 F. 2d 92. The court also concluded that the arrangement did not restrict potential competition between Stokes and Sharp & Dohme. It said that Stokes could not exploit patents on medical products "without going outside its normal field, which is machinery," and that Sharp & Dohme "is in no position to exploit directly the improvements in machinery which it discovers in the course of its research." *Id.*, 93.

Appellant finally contends that, in view of the Michigan "Dead Man" statute, the District Court erred in admitting testimony of a Government witness as to his conversations with officers of defendant companies who had died prior to the trial. In *United States* v. *Borden Co.*, 347 U.S. 514, 516, where the Government's appeal challenged the decision below on the basis of like alleged error, this Court held that the decision below would have been the same had the challenged ruling been otherwise and that the alleged error therefore did not constitute ground for reversal. This is the situation in the instant case, on appellant's own showing. The alleged error relates only to an unwritten agreement among defendants set forth in finding

24 (J.S. 16, 30). Appellant states that findings 18-23 (J.S. 25-30) "deal with the heart of the case," that "the case does not turn on" the testimony admitted in alleged contravention of the state "Dead Man" statute, and that "all" of the District Court's findings "are closely allied to and intertwined with its conclusion that the API agreement was invalid" (J.S. 15-16).

CONCLUSION

For the foregoing reasons, we submit that the appeal presents no substantial question, that the decision below is clearly correct, and that the questions involved do not call for further review by this Court. It is therefore respectfully submitted that the judgment of the District Court should be affirmed.

Respectfully submitted,

SIMON E. SOBELOFF,
Solicitor General,
STANLEY N. BARNES,
Assistant Attorney General.
CHARLES H. WESTON,
BADDIA J. RASHID,
Attorneys.

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In the Supreme Court of the United States

OCTOBER TERM, 1955.

No. 558

THE MAC INVESTMENT COMPANY,
Appellant,

vs.

THE UNITED STATES OF AMERICA,
Appellee.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF MICHIGAN,
SOUTHERN DIVISION

BRIEF OF APPELLANT IN OPPOSITION TO MOTION TO AFFIRM

ROCKWELL T. GUST,
1881 National Bank Building,
Detroit 26, Michigan,
Counsel for Appellant.

Of Counsel:

BUTZEL, EAMAN, LONG, GUST & KENNEDY,
JAMES D. RITCHIE,
1881 National Bank Building,
Detroit 26, Michigan.

A. H. BRENAN,
BRUCE GRISWOLD,
1717 Union Commerce Building,
Cleveland 14, Ohio.

JAMES T. HOFFMANN,
870 Union Commerce Building,
Cleveland 14, Ohio.

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TABLE OF CONTENTS.

BRIEF OF APPELLANT IN OPPOSITION TO MOTION TO AFFIRM 1

Conclusion 10

TABLE OF CASES.

Addyston Pipe & Steel Co. v. United States, 175 U. S. 211 4

Binderup v. Pathe Exchange, Inc., 263 U. S. 291 5

Cutter Laboratories v. Lyophile-Cryochem, 179 F. (2d) 80 ..... 6, 7, 8

Eastern States Retail Lumber Dealers' Ass'n. v. United States, 234 U. S. 600 5

Timken Roller Bearing Co. v. United States, 341 U. S. 593 4

Transparent-Wrap Machine Corp. v. Stokes & Smith Co., 329 U. S. 637 ..... 6, 7

United States v. American Tobacco Co., 221 U. S. 106 4

United States v. Borden Company, 347 U. S. 514 8

United States v. General Dyestuffs Corp., 57 F. Supp. 642 5

United States v. Griffith, 334 U. S. 100 5

United States v. Hartford-Empire Co., 46 F. Supp. 541 (N. D. Ohio), affirmed 323 U. S. 386 5

United States v. Line Material Company, 333 U. S. 287 6

United States v. National Lead Co., 63 F. Supp. 513 (S. D. N. Y.), affirmed 332 U. S. 319 5

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BRIEF OF APPELLANT IN OPPOSITION TO MOTION TO AFFIRM

Pursuant to Rule 16, Paragraph 3, appellant submits its Brief in opposition to the Motion to Affirm[1] filed by appellee.

The fundamental issue in the case is the validity of the provision in the API Agreement for the assignment of improvement patents and the granting of licenses thereunder to the parties. Appellee not only fails to refute that this presents a substantial question but obscures the issue by setting forth, in colorful language, a number of propositions which have no application here and serve no purpose except to divert attention from the real issue.

Appellee misstates our argument in stating (Motion 5) that we are contending that the API Agreement is a

[1] The Government's Motion to Affirm will be referred to as "Motion" and appellant's Jurisdictional Statement as "J. S."

"*mere* restatement of patent rights created by the outstanding individual licenses previously granted by DeVlieg." Moreover, the Government is mistaken in stating that we "ignore(s) certain basic facts" (Motion 5), namely, that the API Agreement is concerned not only with the inventions covered by the individual licenses but also with improvements thereon later developed by any of the parties. We, in fact, emphasized, as we do now, that the "validity of the API Agreement depends on the right of non-competing exclusive licensees of an inventor to agree that improvement inventions made by any of them during the life of the patent on the licensed invention will be made available to the other licensees to the same extent as they are licensed to use the original invention" (J. S. 9). We then contended that "*in other respects* the API Agreement is nothing more than a clarifying restatement of patent rights including those created by the outstanding licenses previously granted by DeVlieg to the respective parties to the API Agreement" (J. S. 9) (Emphasis added). In short, the only material difference between the rights of the parties under their individual licenses from DeVlieg and their rights under the API Agreement is that under the API Agreement each licensee was entitled to use not only those improvements made by DeVlieg or itself on the three original inventions but also those made by DeVlieg's other licensees. It is significant that appellee can point to no other important difference between the API Agreement and the individual licenses.

In an effort to show other differences between the individual licenses and the API Agreement, appellee seeks to convey the impression that the API Agreement was of unlimited duration and that it applied even to improvements made after the expiration of the three patents on the original inventions. (Motion 5, 6.) Appellee is clearly

mistaken. The API Agreement was definitely limited in duration and applied only to those improvements perfected during a limited period. *There was no obligation to assign improvements after the expiration of the patents on the three original inventions.* (Gov. Ex. 12, Article I.) Hence, all obligations to assign improvements ceased on January 28, 1953 when the last of the three original patents expired.

As stated above, the API Agreement provided that the parties would assign to API any improvements on the three original DeVlieg inventions which they might develop during the life of the patents on said inventions and that API would license the parties to use such improvements to the same extent that they were licensed by DeVlieg to use the original inventions. The Government's conclusion that such an arrangement "was an agreement not to compete, achieved through a division of exclusive fields of manufacture" (Motion 6) fails to square with the facts and completely distorts the provisions of the API Agreement.

Historically, and by virtue of the characteristics of the industry, De Vlieg's licensees were specialists manufacturing different types of machines. Counsel for appellee stated at the trial:

> "I think it is accurate to state that the industry is one of specialists; specialists in the sense that the different companies who are engaged in the trade for over a period of time become established in the manufacture of a particular type, or particular types of machines. * * *" (Transcript of testimony, p. 9.)

Although each of the licensees has always had strong and vigorous competition from other manufacturers of the particular type of machine it sold, each had for many years manufactured machines which did not compete with those of the other licensees. Counsel for appellee further stated at the trial:

> "* * * Now, because of the fact that these companies manufacture different types of machines, they are therefore non-competitive." (Transcript of testimony, p. 9.)

It was only because the parties were specialists manufacturing different and non-competing machines that it was possible for DeVlieg as inventor to grant each of them an exclusive license to use his inventions in its particular type of machines.

The earlier suit, Civil Action No. 6813 (J. S. 7, 8), filed by Lucas and API against DeVlieg was *not* brought, as the Government implies (Motion 7, 8), to prevent DeVlieg from manufacturing horizontal boring machines, but was brought to prevent him and his controlled companies from using *in* horizontal boring machines patent rights which he had sold to Lucas for a valuable consideration and from infringing patent rights owned by Lucas and having *no* connection whatsoever with API.

Throughout its motion, appellee uses phrases such as "prevention of competition," "exclusive fields of manufacture," "concert of action," and "concerted refusal to deal," apparently in an effort to suggest anti-trust violation and illegal action. These phrases have no application here.

An analysis of the cases relied on by appellee (Motion 6-8) clearly shows that they were decided on the basis of facts not present here, and that they are wholly irrelevant. *Timken Roller Bearing Co. v. United States,* 341 U. S. 593, 596-599, involved a contract which provided for the fixing of prices and restricting of imports and exports. *United States v. American Tobacco Co.,* 221 U. S. 106, 182, dealt with a combination whose purpose was to acquire dominion and control of interstate commerce in tobacco. In *Addyston Pipe & Steel Co. v. United States,* 175 U. S. 211, 241, there was a combination of the principal com-

panies engaged in the manufacture of pipe to provide for collusive bidding and the pooling and division of profits on sales in certain territories. *United States v. National Lead Co.*, 63 F. Supp. 513 (S. D. N. Y.), affirmed 332 U. S. 319, was concerned with a combination of companies dominating an industry and dividing the world into exclusive trading areas for the purpose of suppression of competition. *United States v. Hartford-Empire Co.*, 46 F. Supp. 541 (N. D. Ohio), affirmed 323 U. S. 386, struck down a combination which dominated the entire glass industry. In *United States v. Griffith*, 334 U. S. 100, 107, monopoly power obtained by an illegal combination of the bargaining power of several affiliated companies was used to gain a competitive advantage over a competitor or destroy him. In *United States v. General Dyestuffs Corp.*, 57 F. Supp. 642, 648, two of the largest manufacturers of dyestuffs were accused of agreeing not to compete with one another. In *Binderup v. Pathe Exchange, Inc.*, 263 U. S. 291, and *Eastern States Retail Lumber Dealers' Ass'n. v. United States*, 234 U. S. 600, the defendants, as competing sellers, combined in a refusal to sell to certain buyers. Obviously none of these cases involved merely an agreement such as the API Agreement concerned only with the exchange of improvement patent rights among non-competing licensees of an individual inventor.

"Concerted refusal to deal," referred to by appellee (Motion 8), has no relevancy to this case. DeVlieg was granted a patent monopoly by the United States which made it unlawful for others to use his invention without his consent. He carved up his monopoly and transferred parts of it to his licensees by granting to them the exclusive right to use his inventions in their respective types of machines. Thereafter, it was unlawful for anyone else, including DeVlieg, to use the inventions in any of those

types of machines without the consent of the particular licensee who had purchased the exclusive right to use the inventions in that particular type of machine. "Any patent owner who grants an exclusive license * * * cuts himself off from practicing the art claimed in the patent until the patent has expired." *Cutter Laboratories v. Lyophile-Cryochem,* 179 F. (2d) 80, 93. Any limitations, therefore, upon the use of the inventions involved in this case did not result from a "concerted refusal to deal" or by "veto" but rather from the legitimate exercise of rights under the patent laws.

As stated above, the basic issue here is the validity of the provisions in the API Agreement requiring the assignment of future improvement patents and the licensing of the parties thereunder. This cross-licensing of improvements was essential in order to secure the maximum benefits for both the licensees and the public from both the original inventions and the improvements. As this Court said in regard to a similar situation where conflicting patent claims "made it impossible for any manufacturer to use both p[illegible]nts when later issued without some cross-licensing arrangement":

> "Only when both patents could be lawfully used by a single maker could the public or the patentees obtain the full benefit of the efficiency and economy of the inventions." *United States v. Line Material Company,* 333 U. S. 287, 291.

Appellee seeks to distinguish the present case from *Transparent-Wrap Machine Corp. v. Stokes & Smith Co.,* 329 U. S. 637, on the ground that "*The Transparent-Wrap* case involved the validity of a license agreement between a single licensor and a single licensee, which obligated the licensee to assign improvement patents to the licensor. The instant case, on the other hand, involves the validity of

agreement among patentees to restrict or eliminate competition." (Motion 9). Such a statement begs the question. In this case, as in the *Transwrap* case, there is a single patentee until a licensee develops an improvement invention. Thereafter, it is an agreement among patentees. The issue in both cases is substantially the same: does an agreement requiring an assignment of improvement patents restrict or eliminate competition? As this Court said in the *Transwrap* case, the agreement for the assignment of improvement patents does not create a monopoly or restraint.

> "It is, of course, true that the monopoly which the licensor obtains when he acquires the improvement patents extends beyond the term of his basic patent. But as we have said, that is not creating by agreement a monopoly which the law otherwise would not sanction. The grant of the improvement patent itself creates the monopoly. On the facts of the present case the effect on the public interest would seem to be the same whether the licensee or the licensor owns the improvement patents." (pp. 645, 646)

The cross-licensing provisions in the API Agreement constitute nothing more than a trading of patent rights. This Court further stated in *Transwrap*:

> "One who uses one patent to acquire another is not extending his patent monopoly to articles governed by the general law and as respects which neither monopolies nor restraints of trade are sanctioned. He is indeed using one legalized monopoly to acquire another legalized monopoly." (p. 644)

Appellee's summary of *Cutter Laboratories, supra,* omits facts which show the marked similarity of that case to the instant case. In that case Stokes Co. and Sharp & Dohme formed a separate company, Lyophile-Cryochem Corporation, to which the parties transferred the right to

grant licenses under all present and future patents in the freeze-dried drug field. The license back from Lyophile-Cryochem to Stokes was an *exclusive* license to use these patents in *its normal field of activity,* the manufacture of machinery. The appellant there advanced the same arguments and contentions used by the Government in the instant case. The Court nevertheless upheld the arrangement between Stokes and Sharp & Dohme and their jointly created company, Lyophile-Cryochem Corporation, saying: "Thus, the objections to the agreements must be narrowed down to the cross-licensing rights granted * * * It is consistent with the spirit, as well as the letter, of the patent laws that each of these two companies should arrange to use the other in order to reap the rewards to which it is entitled as patentee and yet which it is in no position to reap by itself." (Ibid., 93)

Appellant submits that the lower court's decision as to the validity of the API Agreement conflicts with the decisions and the principles in the *Cutter Laboratories* and *Transwrap* cases, *supra.* Neither the District Court nor the Government has cited a single case showing that such an agreement is invalid. Under these circumstances it is clear that a substantial question is presented.

A substantial question is also presented by Question 2, namely, the admissibility in anti-trust cases of testimony of a witness as to alleged conversations with persons who are deceased at the time of trial. The Government itself has previously recognized this as being an important question. See *United States v. Borden Company,* 347 U. S. 514, 516, 517, and footnotes.

Contrary to the Government's statement (Motion 10-11), the District Court's error on its ruling on this question would alone constitute grounds for reversal of a

part of the decision below. In the decision of the trial Court in this case there was a finding of the existence of a "general unwritten agreement not to compete in the manufacture of machine tools" among the defendants. This finding can be derived only from the testimony of the interested witness, DeVlieg, as to alleged conversations with deceased officers of certain of the defendants. If this testimony of DeVlieg, the only Government witness, is not admissible, as appellant contends, then there is no basis for this finding. Without this finding, one of the holdings of the trial Court is completely destroyed.

It is true that appellant also contends that *even if* DeVlieg's testimony is admissible, such testimony will not support the conclusion of the trial judge. (J. S. 16) The District Court's conclusion on this point is one of the errors discussed under Question 3 in appellant's Jurisdictional Statement. In that sense only, the case does not turn on the ruling on the legal issue presented by Question 2. (Motion 10-11) It will be unnecessary, however, for this Court to examine certain of the claimed errors under Question 3 in the event that appellant's position on Question 2 is sustained. Accordingly, it is submitted that Question 2 should be ruled on by this Court for it is a substantial question and relates to the determination of important issues in the case.

CONCLUSION.

Appellee has failed to show that the appeal presents no substantial question. There are, on the contrary, substantial and important questions presented which should be reviewed by this Court. Appellee's Motion to Affirm should therefore be denied and probable jurisdiction should be noted.

Respectfully submitted,

ROCKWELL T. GUST,
1881 National Bank Building,
Detroit 26, Michigan,
Counsel for Appellant.

Of Counsel:

BUTZEL, EAMAN, LONG, GUST & KENNEDY,
JAMES D. RITCHIE,
1881 National Bank Building,
Detroit 26, Michigan.

A. H. BRENAN,
BRUCE GRISWOLD,
1717 Union Commerce Building,
Cleveland 14, Ohio.

JAMES T. HOFFMANN,
870 Union Commerce Building,
Cleveland 14, Ohio.

No. 558. MAC INVESTMENT CO. *v.* UNITED STATES. Appeal from the United States District Court for the Eastern District of Michigan. *Per Curiam:* The motion to affirm is granted and the judgment is affirmed. *Rockwell T. Gust, Bruce Griswold* and *James T. Hoffmann* for appellant. *Solicitor General Sobeloff, Assistant Attorney General Barnes, Charles H. Weston* and *Baddia J. Rashid* for the United States. Reported below: 134 F. Supp. 74.